USmart Mobile Device Inc.
Form 10-Q
November 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number: 000-50140

USmart Mobile Device Inc.
(Exact name of Registrant as specified in its charter)

Delaware	16-1642709
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Room 1703, 17/F., Tower 1, Enterprise Square,
9 Sheung Yuet Road, Kowloon Bay,
Kowloon, Hong Kong.
(Address of principal executive offices) (Zip code)

011-852-3666-9939
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ

The Registrant had 39,684,495 shares of common stock outstanding as of November 14, 2013.

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Condensed Consolidated Balance Sheets (Unaudited)

	Notes	As of September 30, 2013 (Unaudited)		As of December 31, 2012 (Audited)	
ASSETS					
Current assets					
Cash and cash equivalents		$	743,020	$	639,462
Restricted cash			0		838,413
Accounts receivable, net of allowance for doubtful accounts of $98,061 for 2013 and 2012			743,719		1,227,703
Amount due from related companies			550,131		0
Inventories, net	3		1,134,508		4,616,148
Other current assets			748,620		776,868
Total current assets		$	3,919,998	$	8,098,594
Long-term assets:					
Property, plant and equipment, net	4		8,414,801		9,586,055
Investments in a jointly-controlled entity	14		3,701,506		2,818,307
Intangible assets	16		5,670,562		11,341,123
Other deposits			142,465		165,325
Amounts due from Aristo / Mr. Yang	7		1,969,838		3,658,359
TOTAL ASSETS		$	23,819,170	$	35,667,763
LIABILITIES					
Current liabilities					
Accounts payable		$	399,262	$	358,006
Amount due to related companies			0		9,209,313
Accruals			421,467		375,513
Lines of credit and loan facilities	8		1,914,685		8,319,321
Bank loans	9		5,099,079		6,099,309
Loan from a third party (current portion)	11		641,026		0
Current portion of capital lease	5		80,376		96,506
Income tax payable			(177,291)		(177,291)
Due to shareholders for converted pledged collateral			112,385		112,385
Other current liabilities	10		16,353,908		12,386,002
Total current liabilities		$	24,844,897	$	36,779,064

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

	Notes		As of September 30, 2013 (Unaudited)		As of December 31, 2012 (Audited)
Long-term liabilities					
Loan from a third party, non-current portion	11		6,410,256		0
Capital lease, less current portion	5	$	75,003		133,428
Deferred tax liabilities			5,569		74,289
Total long-term liabilities			6,490,828		207,717
TOTAL LIABILITIES		$	31,335,725		36,986,781
NET ASSETS (LIABILITIES)		$	(7,516,555)		(1,319,018)
Commitments and contingencies		$	0	$	0
STOCKHOLDERS' EQUITY					
Preferred stock, 20,000,000 shares authorized; 0 shares issued and outstanding as of September 30, 2013 and December 31, 2012		$	0	$	0
Common stock, $0.001 par value; 50,000,000 shares authorized; 39,684,495 and 39,474,495 shares issued and outstanding as of September 30, 2013 and December 31, 2012			39,685		39,475
Additional paid in capital			4,333,723		4,321,333
Exchange reserve			(1,810)		2,072
Retained earnings (deficits)			(9,466,411)		(3,539,251)
			(5,094,813)		823,629
Non-controlling interest			(2,421,742)		(2,142,647)
TOTAL STOCKHOLDERS' EQUITY		$	(7,516,555)	$	(1,319,018)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income (Unaudited)

	Notes	Three months ended September 30, 2013 (Unaudited)	September 30, 2012 (Unaudited)	Nine months ended September 30, 2013 (Unaudited)	September 30, 2012 (Unaudited)
Net sales		$ 19,859,776	$ 49,488,031	$ 59,327,919	$ 123,266,932
Costs of sales		19,569,973	48,626,491	58,957,261	121,650,790
Gross profit (loss)		$ 289,803	$ 861,540	$ 370,658	$ 1,616,142
Operating expenses					
Selling and distribution costs		34,673	69,580	104,392	237,220
General and administrative expenses		1,283,968	1,089,389	3,357,584	3,228,567
Income (loss) from operations		$ (1,028,838)	$ (297,429)	$ (3,091,318)	$ (1,849,645)
Other expenses (income)					
Rental income		(42,605)	(54,125)	(131,365)	(144,510)
Interest expenses		295,241	265,807	720,745	700,567
Management and service income		(75,035)	11,589	(159,703)	(71,284)
Interest income		(208)	(572)	(1,278)	(2,165)
Loss (profit) on disposals of fixed assets		0	0	(1,872,724)	(256)
Exchange differences		(35,214)	(5,709)	(38,910)	(10,469)
Reverse for provision of doubtful account			(1,648,390)	0	(1,648,390)
Miscellaneous		(13,234)	(36,803)	(120,470)	(113,895)
Amortization of intangible assets	16	5,670,561	0	5,670,561	0
Share result of a jointly-controlled entity	14	(313,142)	(16,985)	(883,199)	238,371
Income (loss) before income taxes		$ (6,515,202)	$ 1,187,759	$ (6,274,975)	$ (797,614)
Income taxes provision (reversal)		(68,720)	32,950	(68,720)	32,950
Net income (loss)		$ (6,446,482)	$ 1,154,809	$ (6,206,255)	$ (830,564)
Dividend paid		0	0	0	7
		$ (6,446,482)	$ 1,154,809	$ (6,206,255)	$ (830,571)
Attributable to:					
Non-controlling interest		(141,586)	0	(279,095)	0
Shareholders of the Company		(6,304,896)	1,154,809	(5,927,160)	(830,564)

		$ (6,446,482)	$ 1,154,809	$ (6,206,255)	$ (830,564)
Earnings (loss) per share basic and diluted		$ (0.17)	$ 0.04	$ (0.16)	$ (0.03)
Weighted average number of shares basic and diluted	13	38,591,443	31,694,916	38,591,443	31,694,916

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Notes	As of September 30, 2013 (Unaudited)	As of September 30, 2012 (Unaudited)
Cash flows provided by (used for) operating activities :			
Net income (loss)		$ (6,206,255)	$ (830,564)
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities:			
Reversal for provision of doubtful account		0	1,648,390
Depreciation and amortization		512,587	362,647
Change in inventory reserve		(177,286)	0
Loss (gain) on disposal of fixed assets		(1,872,724)	(256)
Loss (gain) on investment in a jointly-controlled entity		(884,199)	238,371
Dividend paid		0	(7)
Change in exchange reserve		(3,882)	0
Amortization of intangible assets	16	5,670,561	0
Issuance of common stocks under render of consultancy services		12,600	0
Changes in assets and liabilities:			
(Increase) decrease in assets			
Accounts receivable - other		483,984	10,581,548
Accounts receivable - related parties		(550,131)	0
Inventories		3,658,926	(2,201,061)
Other current assets		28,248	(83,607)
Other assets		22,860	(55,628)
Increase (decrease) in liabilities			
Accounts payable - other		41,256	(23,782,861)
Accounts payable - related parties		(9,209,313)	11,957,235
Accrued expenses		45,954	(166,936)
Income tax payable		0	24,777
Deferred tax		(68,720)	11,044
Other current liabilities		3,967,906	4,478,377
Total adjustments		$ (2,573,294)	$ 3,012,033
Net cash provided by (used for) operating activities		$ (4,526,628)	$ 2,181,469

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PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Notes	As of September 30, 2013 (Unaudited)	As of September 30, 2012 (Unaudited)
Cash flows provided by (used for) investing activities:			
Advanced from Aristo / Mr. Yang		$ 1,688,521	$ 3,235,208
Advanced to Aristo / Mr. Yang		0	(3,337,123)
Net cash inflow on acquisition of subsidiaries	14	0	157,259
Investment in a jointly-controlled entity		0	(2,974,024)
Decrease (increase) of restricted cash		838,413	1,383,400
Cash proceeds from sales of fixed assets		2,531,391	256
Purchase of fixed assets		0	(175)
Net cash provided by (used for) investing activities		$ 5,058,325	$ (1,535,199)
Cash flows provided by (used for) financing activities:			
Net repayments on lines of credit and notes payable		$ (6,404,636)	$ (5,262,460)
Principal payments to bank		(4,141,256)	(739,778)
Borrowings from bank		3,141,026	5,064,103
Borrowings from a third party	11	7,051,282	0
Principal payments under capital lease obligation		(74,555)	(82,970)
Net cash provided by (used for) financing activities		$ (428,139)	$ (1,021,105)
Net increase (decrease) in cash and cash equivalents		$ 103,558	$ (374,835)
Cash and cash equivalents beginning of year		639,462	672,819
Cash and cash equivalents end of period		$ 743,020	$ 297,984
Supplementary disclosure of cash flow information:			
Interest paid		$ 720,745	$ 700,567
Income tax paid (reversal)		$ 0	$ 118,638

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 1. Organization and Principal Activities

USmart Mobile Device Inc. ("USmart") and its subsidiaries are referred to herein collectively and on a consolidated basis as the "Company" or "we", "us" or "our" or similar terminology.

The Company was incorporated under the laws of the State of Delaware on September 17, 2002 and previously known as ACL Semiconductors Inc. The Company acquired Atlantic Components Limited, a Hong Kong incorporated company ("Atlantic") through a reverse-acquisition that was effective September 30, 2003. On September 28, 2012, the Company acquired Jussey Investments Limited, a company incorporated in British Virgin Islands ("Jussey") (please refer to Note 14 for more information on the acquisition).

The Company is currently engaged in the production, manufacturing and distribution of smartphones, electronic products and components in Hong Kong Special Administrative Region ("Hong Kong") and the People's Republic of China ("China" or the "PRC") through its operating subsidiaries and VIE:

(i) Atlantic Components Limited, a Hong Kong incorporated company and the Company's original principle operating subsidiary which is controlled by the Company through its subsidiary, ACL International Holdings Limited ("ACL Holdings"); and

(ii) Aristo Technologies Limited, a Hong Kong incorporated company ("Aristo"), solely owned by Mr. Chung-Lun Yang, the Company's Chairman of the Board of Directors ("Mr. Yang"); and

(iii) eVision Telecom Ltd. ("eVision"), a Hong Kong incorporated company which was acquired through an acquisition of its holding company, Jussey; and

(iv) USmart Electronic Products Ltd. ("UEP"), a Hong Kong incorporated company which was acquired through an acquisition of its holding company, Jussey; and

(v) Dongguan Kezheng Electronics Ltd. ("Kezheng"), a wholly foreign-owned enterprise ("WFOE") organized under the laws of the PRC which is acquired through an acquisition of its ultimate holding company, Jussey.

The Company owns 100% equity interest of ACL International Holdings Limited, a Hong Kong incorporated company, which owns:

(i) 100% equity interest of Atlantic (restructured on December 17, 2010); and

(ii) 30% equity interest of ATMD, a joint venture with Tomen Devices Corporation ("Tomen") and IBCom Electronics (HK) Limited ("IBCom"); and

(iii) 100% equity interest of Jussey Investments Limited, a company incorporated in British Virgin Islands (acquired by ACL Holdings on September 28, 2012) which owns:

a. 100% equity interest in eVision; and

b. 80% equity interest in UEP, which owns 100% equity interest in Kezheng.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 1. Organization and Principal Activities (Continued)

On March 23, 2010, USmart concluded that Aristo, a related company solely owned by Mr. Yang is a variable interest entity under FASB ASC 810-10-25 and is therefore subject to consolidation with USmart beginning fiscal year 2007 under the guidance applicable to variable interest entities.

Business Activity

USmart was incorporated under the laws of the State of Delaware on September 17, 2002. The Company has been primarily engaged in the business of distribution of memory products mainly under "Samsung" brand name which principally comprised Dynamic Random Access Memory ("DRAM"), Graphic Random Access Memory ("Graphic RAM"), and Flash memory components for the Hong Kong Special Administrative Region ("Hong Kong") and People's Republic of China (the "PRC" or "China") markets formerly through its indirectly wholly owned subsidiary Atlantic Components Limited ("Atlantic"), a Hong Kong incorporated company, and ATMD (Hong Kong) Limited ("ATMD") after April 1, 2012. The Company, through its wholly owned subsidiary ACL International Holdings Limited ("ACL Holdings"), owns 30% equity interest in ATMD, the joint venture with Tomen Devices Corporation ("Tomen") and IBCom Electronics (HK) Limited ("IBCom"). ATMD offers a broad range of industry-leading Samsung semiconductor products, and additional components from SAMCO (such as wifi and camera modules) and SMD (smartphone panels). Atlantic integrated around 90% of its business relating to procurement of semiconductors and electronic parts from Samsung to ATMD. Subsequent to the start of the operations of ATMD, the Company's sales, the cost of sales and operating expenses are expected to evolve in accordance with the transition of the Company's business as described above. Through the acquisition of Jussey Investments Limited ("Jussey") on September 28, 2012, the Company has diversified its product portfolio and customer network, obtained design and manufacturing capabilities, and tapped into the blooming telecommunication industry with access to the 3G baseband licenses.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies

(a) Method of Accounting

The Company maintains its general ledger and journals with the accrual method accounting for financial reporting purposes. The consolidated financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of consolidated financial statements.

(b) Principles of Consolidation

The consolidated financial statements are presented in US Dollars and include the accounts of the Company and its subsidiary. All significant inter-company balances and transactions are eliminated in consolidation.

The Company owned its subsidiary soon after its inception and continued to own the equity's interests through September 30, 2013. The following table depicts the identity of each subsidiary:

Name of Subsidiary	Place of Incorporation	Attributable Equity Interest %	Registered Capital	
ACL International Holdings Limited	Hong Kong	100	$	0.13
Alpha Perform Technology Limited	BVI	100	$	1,000
Atlantic Components Limited (1)	Hong Kong	100	$	384,615
Aristo Technologies Limited (2)	Hong Kong	100	$	1,282
Dongguan Kezheng Electronics Limited (3) (5)	PRC	80	$	580,499
eVision Telecom Limited (4) (5)	Hong Kong	100	$	25,641
Jussey Investments Limited (1) (5)	BVI	100	$	1
USmart Electronic Products Limited (4) (5)	Hong Kong	80	$	1.28

Note: (1) Wholly owned subsidiary of ACL International Holdings Limited
(2) Deemed variable interest entity
(3) Wholly owned subsidiary of USmart Electronic Products Limited
(4) Wholly or partially owned by Jussey Investments Limited
(5) These subsidiaries are not consolidated to the Company's consolidated financial statements as of June 30, 2012

Variable Interests Entities
According to ASC 810-10-25 which codified FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46R), an entity that has one or more of the three characteristics set forth therein is considered a variable interest entity. One of such characteristics is that the equity investment at risk in the relevant entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders.

ASC 810-05-08A specifies the two characteristics of a controlling financial interest in a variable interest entity ("VIE"): (1) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company is the primary beneficiary of Aristo because the Company can direct the activities of Aristo through the common director and major shareholder. Also, the Company extended substantial account receivable to Aristo and created an obligation to absorb loss if Aristo failed. Moreover, ASC 810-25-42 & 43 provides guidance on related parties treatment of VIE and specifies the relationship of de-facto agent and principal. This guidance will help to determine whether the Company will consolidate Aristo.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(b) Principles of consolidation (Continued)

Owing to the extent of outstanding large amounts of accounts receivable since 2007 together with the nominal amount of paid-up capital contributed by Mr. Yang when Aristo was formed, it has been determined that Aristo cannot finance its operations without subordinated financial support from USmart and accordingly, USmart is considered to be the de facto principal of Aristo, Aristo is considered to be the de facto subsidiary of the Company and Mr. Yang is considered to be the related party of both the Company and Aristo.

By virtue of the above analysis, it has been determined that the Company is the primary beneficiary of Aristo.

Aristo Technologies Limited

The Company used to sell Samsung memory chips to Aristo and allowed long grace periods for Aristo to repay the open accounts receivable. After the establishment of ATMD, the Company will sell different brands of memory products to Aristo. Being the biggest creditor, the Company did not require Aristo to pledge assets or enter into any agreements to bind Aristo to specific repayment terms. The Company did not experience any bad debt from Aristo. Hence, the Company did not provide any bad debt provision derived from Aristo. Although, the Company was not involved in Aristo's daily operation, it believes that there will not be significant additional risk derived from the trading relationship and transactions with Aristo.

Aristo is engaged in the marketing, selling and servicing of computer products and accessories including semiconductors, LCD products, mass storage devices, consumer electronics, computer peripherals and electronic components for different generations of computer related products. Aristo carries various brands of products such as Samsung, Hynix, Micron, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond. Aristo 2012 and 2011 sales were around $2 million and $14 million; it was a small distributor that accommodated special requirements for specific customers.

Aristo supplies different generations of computer related products. Old generation products will move slowly owing to lower market demand. According to the management experience and estimation on the actual market situation, old products carrying on hand for ten years will have no resell value. Therefore, inventories on hand over ten years will be written-off by Aristo immediately.

The Company sold to Aristo in order to fulfill Aristo's periodic need for memory products based on prevailing market prices, which products Aristo, in turn, sells to its customers. The sales to Aristo during the third quarter of 2013 were $1,747,002 as of September 30, 2013. The sales to Aristo during the third quarter of 2012 were $0 as of September 30, 2012. For fiscal year 2012, sales to Aristo were $106,031 as of December 31, 2012.

The Company purchases from Aristo, from time to time, LCD panels, Samsung memory chips, DRAM, Flash memory, central processing units, external hard disks, DVD readers and writers that the Company cannot obtain from Samsung directly due to supply limitations.

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PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(b) Principles of consolidation (Continued)

Acquisition

The Company uses the acquisition method of accounting for business combinations which requires that the assets acquired and liabilities assumed be recorded at the date of the acquisition at their respective fair values. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value if fair value can reasonably be estimated. If the fair value of an asset acquired or liability assumed that arises from a contingency cannot be determined at the date of acquisition, the asset or liability is recognized if probable and reasonably estimable; if these criteria are not met, no asset or liability is recognized. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs and costs to restructure the acquired company are expensed as incurred. The operating results of acquired business are reflected in the acquirer's consolidated financial statements and results of operations after the date of the acquisition.

(c) Jointly-controlled entity

A jointly-controlled entity is a corporate joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in a jointly-controlled entity is stated in equity method for the consolidated statement of financial position the Group's shares of the equity of a jointly-controlled entity and the consolidated income statement and consolidated reserves, respectively.

(d) Use of estimates

The preparation of the consolidated financial statements that conform with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time, however actual results could differ materially from those estimates.

(e) Economic and political risks

The Company's operations are conducted in Hong Kong and China. A large amount of customers are located in Southern China. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in Hong Kong and China, and by the general state of the economy in Hong Kong and China.

The Company's operations and customers in Hong Kong and Southern China are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in Hong Kong and China, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(f) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method.

Estimated useful lives of the plant and equipment are as follows:

Automobiles	3 1/3 years
Computers	5 years
Leasehold improvement	5 years
Land and buildings	By estimated useful life
Office equipment	5 years
Machinery	10 years

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income.

(g) Intangible assets

Intangible assets include license contracts and trademarks, initial measures at fair market value and are subsequently carry at fair value less amortization and impairment, if any.

The license contracts and trademarks are measured based on the future economic benefits arising from the mobile business acquired from Jussey. The license contracts and trademarks are individually identified and separately recognized by using income approach. They represent the economic benefits derived from the mobile phone production contracts obtained at the time of the acquisition.

The Company will capture the finite life of these intangible assets. Amortization will be provided to license contracts based on the percentage of the completion of these contracts (measured by production and shipment schedules) and their respective economic benefits. The Company will provide 24 equally monthly amortizations to trademark commencing July 2013 till to June 2015.

Estimates of the useful lives and residual values of intangible assets are reviewed periodically and adjusted if appropriate.

Basically, the estimated useful lives of the intangible assets are as follows:

License contracts	24 months
Trademarks	24 months

The Company will evaluate the procedure on the measurement of these intangible assets from time to time to assess their fair value. Periodically, the Company will re-measure the values of these intangible assets. If their re-calculated fair values are below the carrying value in the ledger, the Company will provide additional impairment to reflect the reduction of future economic benefits and their related fair values.

(h) Accounts receivable

Accounts receivable is carried at the net invoiced value charged to customer. The Company records an allowance for doubtful accounts to cover estimated credit losses. Management reviews and adjusts this allowance periodically based on historical experience and its evaluation of the collectability of outstanding accounts receivable. The Company evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(i) Accounting for impairment of long-lived assets

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review, pursuant to the guidelines established in ASC No. 360 (formerly Statement of Financial Accounting Standards No. 144). The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

During the reporting years, there was no impairment loss.

(j) Cash and cash equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company maintains bank accounts in Hong Kong. The Company does not maintain any bank accounts in the United States of America.

(k) Inventories

Inventories are stated at the lower of cost or market and are comprised of purchased computer technology resale products. Cost is determined using the first-in, first-out method. The reserve for obsolescence was decreased by $177,286 during the first nine months of 2013 compare to December 31, 2012 and no change for the same period of September 30, 2012 compare to December 31, 2011. Inventory obsolescence reserves totaled $2,109,011 as of September 30, 2013 and $2,286,297 as of December 31, 2012.

(l) Lease assets

Leases that substantially transfer all the benefits and risks of ownership of assets to the company are accounted for as capital leases. At the inception of a capital lease, the asset is recorded together with its long term obligation (excluding interest element) to reflect the purchase and the financing.

Leases which do not transfer substantially all the risks and rewards of ownership to the company are classified as operating leases. Payments made under operating leases are charged to income statement in equal installments over the accounting periods covered by the lease term. Lease incentives received are recognized in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period which they are incurred.

(m) Income taxes

We are governed by the Internal Revenue Code of the United States, the Hong Kong Inland Revenue Department and the PRC's Income Tax Laws. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carry forwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income of the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Realization of the deferred tax asset is dependent on generating sufficient taxable income in future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(m) Income taxes (Continued)

The Company did not have any interest or penalty recognized in the income statements for the period ended September 30, 2013 and September 30, 2012 or balance sheet as of September 30, 2013 and December 31, 2012. The Company did not have uncertain tax positions or events leading to uncertain tax position within the next 12 months. The Company's 2010, 2011 and 2012 U.S. federal income tax returns are subject to U.S. Internal Revenue Service examination and the Company's 2006/7, 2007/8, 2008/9, 2009/2010, 2010/11, 2011/12 and 2012/13, Hong Kong Company Income Tax filing are subject to Hong Kong Inland Revenue Department examination. The Company's 2008, 2009, 2010, 2011, and 2012 PRC income tax returns are subject to PRC State Administration of Taxation examination.

(n) Foreign currency translation

The accompanying consolidated financial statements are presented in United States dollars (USD). The functional currencies of the Company's operating business based in Hong Kong and PRC are the Hong Kong Dollar (HKD) and Renminbi (RMB) respectively. The consolidated financial statements are translated into United States dollars from HKD with a ratio of USD1.00=HKD7.80, a fixed exchange rate maintained between Hong Kong and United States derived from the Hong Kong Monetary Authority pegging HKD and USD monetary policy. For our subsidiaries whose functional currency are the RMB, statement of income, balance sheets and cash flows are translated with a ratio of RMB1.00=HKD1.26 an average exchange rate during the period.

Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods. All of our revenue transactions are transacted in the functional currencies. We have not entered into any material transactions that are either originated, or to be settled, in currencies other than the HKD, RMB and USD. Accordingly, transaction gains or losses have not had, and are not expected to have a material effect on our results of operations.

The RMB is not freely convertible into any other currencies. In addition, all foreign exchange transactions in the PRC must be conducted through authorized institutions. Accordingly, management cannot provide any assurance that the RMB underlying the consolidated financial statement amounts could have been, or could be, converted into HKD or USD at the exchange rates used to translate the functional currency into the reporting currency.

(o) Revenue recognition

The Company derives revenues from resale of computer memory products, providing both ODM (Original Design Manufacturing) and OEM (Original Equipment Manufacturing) services for various electronic products, such as computer and peripherals, flash storage devices and home electronic products. The Company recognizes revenue in accordance with the ASC 605 "Revenue Recognition". Under ASC 605, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns, which historically were not material.

(p) Advertising

The Group expensed all advertising costs as incurred. Advertising expenses included in general and administrative expenses were $1,056 and $1,136 as of September 30, 2013 and 2012, respectively.

(q) Segment reporting

The Company's sales are generated from Hong Kong and the rest of China and substantially all of its assets are located in Hong Kong.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(r) Fair value of financial instruments

The carrying amount of the Company's cash and cash equivalents, accounts receivable, lines of credit, convertible debt, accounts payable, accrued expenses, and long-term debt approximates their estimated fair values due to the short-term maturities of those financial instruments.

(s) Comprehensive income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other consolidated financial statements. The Company has no items that represent other comprehensive income and, therefore, has not included a schedule of comprehensive income in the consolidated financial statements.

(t) Basic and diluted earnings (loss) per share

In accordance with ASC No. 260 (formerly SFAS No. 128), "Earnings Per Share," the basic earnings (loss) per common share is computed by dividing net earnings (loss) available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings (loss) per common share is computed similarly to basic earnings (loss) per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

(u) Reclassification

Certain amounts in the prior period have been reclassified to conform to the current consolidated financial statement presentation.

(v) Recently implemented standards

In January 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This ASU clarifies that ordinary trade receivables and receivables are not in the scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification (Codification) or subject to a master netting arrangement or similar agreement. The FASB undertook this clarification project in response to concerns expressed by U.S. stakeholders about the standard's broad definition of financial instruments. After the standard was finalized, companies realized that many contracts have standard commercial provisions that would equate to a master netting arrangement, significantly increasing the cost of compliance at minimal value to financial statement users. An entity is required to apply the amendments in ASU 2013-01 for fiscal years beginning on or after

January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of ASU 2011-11.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(v) Recently implemented standards (Continued)

In February 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This ASU improves the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP.

The new amendments will require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). A private company is required to meet the reporting requirements of the amended paragraphs about the roll forward of accumulated other comprehensive income for both interim and annual reporting periods. However, private companies are only required to provide the information about the effect of reclassifications on line items of net income for annual reporting periods, not for interim reporting periods. The amendments are effective for reporting periods beginning after December 15, 2012, for public companies and are effective for reporting periods beginning after December 15, 2013, for private companies. Early adoption is permitted.

In February 2013, FASB issued Accounting Standards Update (ASU) No. 2013-03, *Financial Instruments (Topic 825)*. This ASU clarifies the scope and applicability of a disclosure exemption that resulted from the issuance of Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendment clarifies that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed. This ASU is the final version of Proposed Accounting Standards Update 2013-200 Financial Instruments (Topic 825) which has been deleted. The amendments are effective upon issuance.

In February 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. This ASU provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. The amendments in this ASU should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this ASU) and should disclose that fact. Early adoption is permitted.

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PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(v) Recently implemented standards (Continued)

In March 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-05, *Foreign Currency Matters (Topic 830)*. This ASU resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights)within a foreign entity. In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. This ASU is the final version of Proposed Accounting Standards Update EITF11Ar Foreign Currency Matters (Topic 830), which has been deleted. The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. For nonpublic entities the amendments in this Update are effective prospectively for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption.

In April 2013, FASB Accounting Standards Update 2013-07, *Presentation of Financial Statements (Topic 205)*: Liquidation Basis of Accounting. This ASU clarifies when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. Liquidation is the process by which a company converts its assets to cash or other assets and settles its obligations with creditors in anticipation of ceasing all of its activities. An organization in liquidation must prepare its financial statements using a basis of accounting that communicates information to users of those financial statements to enable those users to develop expectations about how much the organization will have available for distribution to investors after disposing of its assets and settling its obligations. The ASU requires organization to prepare its financial statements using the liquidation basis of accounting when liquidation is "imminent." Liquidation is considered imminent when the likelihood is remote that the organization will return from liquidation and either: (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties; or (b) a plan for liquidation is being imposed by other forces (e.g., involuntary bankruptcy). In cases where a plan for liquidation was specified in the organization's governing documents at inception (e.g., limited-life entities), the organization should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified in the organization's governing documents. The ASU requires financial statements prepared using the liquidation basis to present relevant information about a company's resources and obligations in liquidation, including the following:

The organization's assets measured at the amount of the expected cash proceeds from liquidation, including any items it had not previously recognized under U.S. GAAP that it expects to either sell in liquidation or use in settling liabilities (e.g., trademarks).

The organization's liabilities as recognized and measured in accordance with existing guidance that applies to those liabilities.

Accrual of the costs it expects to incur and the income it expects to earn during liquidation, including any anticipated disposal costs.

This ASU is effective for interim and annual reporting periods beginning after December 15, 2013, with early adoption permitted.

In July 2013, The FASB has published Accounting Standards Update 2013-09, *Fair Value Measurement (Topic 820)*: Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04. This ASU defers indefinitely certain disclosures about investments held by nonpublic employee benefit plans in their plan sponsors' own nonpublic equity securities. The ASU was approved by the FASB on June 12, 2013. ASU No. 2013-09, *Fair Value Measurement (Topic 820)*: Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04, applies to disclosures of certain quantitative information about the significant unobservable inputs used in Level 3 fair value measurement for investments held by certain employee benefit plans.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

In July 2013, The FASB has issued ASU No. 2013-11, *Income Taxes (Topic 740)*: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force). U.S. GAAP does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 3. Inventories

Inventories consisted of the following at September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
Finished goods	$	3,243,519	$	6,902,445
Less allowance for excess and obsolete inventory		(2,109,011)		(2,286,297)
Inventory, net	$	1,134,508	$	4,616,148

The following is a summary of the change in the Company's inventory valuation allowance:

	September 30, 2013		December 31, 2012	
Inventory valuation allowance, beginning of the quarter / year	$	2,286,297	$	709,374
Obsolete inventory sold		(177,286)		0
Additional inventory provision		0		1,576,923
Inventory valuation allowance, end of period	$	2,109,011	$	2,286,297

Note 4. Property, Plant and Equipment, net

Property, plant and equipment, net consisted of the following at September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
At cost				
Land and buildings	$	8,574,682	$	9,375,558
Automobiles		658,772		658,772
Office equipment		268,863		268,863
Leasehold improvements		543,550		543,550
Furniture and fixtures		57,302		57,302
Machinery		668,185		668,185
	$	10,771,354	$	11,572,230
Less: accumulated depreciation		(2,356,553)		(1,986,175)
	$	8,414,801	$	9,586,055

Depreciation and amortization expense totaled $320,694 and $120,500 for the three months ended September 30, 2013 and 2012, respectively, and $512,587 and $362,647 for the nine months ended September 30, 2013 and 2012, respectively.

Automobiles include the following amounts under capital leases:

	September 30, 2013	December 31, 2012

Cost	$	399,473	$	469,754
Less accumulated depreciation		(324,108)		(302,106)
Total	$	75,365	$	167,648

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USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 5. Capital Lease Obligations

The Company leases automobiles under three capital leases that expire between April 2014 and December 2015. Aggregate future obligations under the capital leases in effect as of September 30, 2013 and December 31, 2012 are as follows:

The Company has several non-cancellable capital leases relating to automobiles:

	September 30, 2013	December 31, 2012
Current portion	$ 80,376	$ 96,506
Non-current portion	75,003	133,428
	$ 155,379	$ 229,934

At September 30, 2013 and December 31, 2012, the values of automobiles under capital leases are as follows:

	September 30, 2013	December 31, 2012
Cost	$ 399,473	$ 469,754
Less: accumulated depreciation	(324,108)	(302,106)
	$ 75,365	$ 167,648

At September 30, 2013 and December 31, 2012, the Company had obligations under capital leases repayable as follows:

	September 30, 2013	December 31, 2012
Total minimum lease payments		
- Within one year	$ 86,897	$ 103,890
- After one year but within 5 years	79,163	143,430
	$ 166,060	$ 247,320
Interest expenses relating to future periods	(10,681)	(17,386)
Present value of the minimum lease payments	$ 155,379	$ 229,934

Interest expense related to capital leases totaled $2,076, $3,253, $6,705 and $10,272 for the three months ended September 30, 2013 and 2012, and for nine months ended September 30, 2013 and 2012, respectively.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 6. Stock Options

On March 31, 2006, the Board of Directors adopted the 2006 Equity Incentive Stock Plan (the "Plan") and the majority stockholder approved the Plan by written consent. The purpose of the Plan is to provide additional incentive to employees, directors and consultants and to promote the success of the Company's business. The Plan permits the Company to grant both incentive stock options ("Incentive Stock Options" or "ISOs") within the meaning of Section 422 of the Internal Revenue Code (the "Code"), and other options which do not qualify as Incentive Stock Options (the "Non-Qualified Options") and stock awards.

Unless earlier terminated by the Board of Directors, the Plan (but not outstanding options) terminates on March 31, 2016, after which no further awards may be granted under the Plan. The Plan is administered by the full Board of Directors or, at the Board of Director's discretion, by a committee of the Board of Directors consisting of at least two persons who are "disinterested persons" defined under Rule 16b-2(c)(ii) under the Securities Exchange Act of 1934, as amended (the "Committee").

Recipients of options under the Plan ("Optionees") are selected by the Board of Directors or the Committee. The Board of Directors or Committee determines the terms of each option grant, including (1) the purchase price of shares subject to options, (2) the dates on which options become exercisable and (3) the expiration date of each option (which may not exceed ten years from the date of grant). The minimum per share purchase price of options granted under the Plan for Incentive Stock Options and Non-Qualified Options is the fair market value (as defined in the Plan) on the date the option is granted.

Optionees will have no voting, dividend or other rights as stockholders with respect to shares of Common Stock covered by options prior to becoming the holders of record of such shares. The purchase price upon the exercise of options may be paid in cash, by certified bank or cashier's check, by tendering stock held by the Optionee, as well as by cashless exercise either through the surrender of other shares subject to the option or through a broker. The total number of shares of Common Stock available under the Plan, and the number of shares and per share exercise price under outstanding options will be appropriately adjusted in the event of any stock dividend, reorganization, merger or recapitalization or similar corporate event.

The Board of Directors may at any time terminate the Plan or from time to time make such modifications or amendments to the Plan as it may deem advisable and the Board of Directors or Committee may adjust, reduce, cancel and regrant an unexercised option if the fair market value declines below the exercise price except as may be required by any national stock exchange or national market association on which the Common Stock is then listed. In no event may the Board of Directors, without the approval of stockholders, amend the Plan if required by any federal, state, local or foreign laws or regulations or any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any other country or jurisdiction where options or stock purchase rights are granted under the Plan.

Subject to limitations set forth in the Plan, the terms of option agreements will be determined by the Board of Directors or Committee, and need not be uniform among Optionees.

As of September 30, 2013, the Company has not granted any options according to the condition set forth in the 2006 Equity Incentive Stock Plan and therefore, there were no options outstanding under this Plan.

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USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 7. Related Party Transactions

Related party receivables are payable on demand upon the same terms as receivables from unrelated parties.

Transactions with Aristo Technologies Limited / Mr. Yang

This represented Aristo transactions with various related parties of Mr. Yang.

As of September 30, 2013 and December 31, 2012, we had an outstanding receivable from Aristo / Mr. Yang, the Chairman of our Board of Directors, totaling $1,969,838 and $3,658,359 respectively. These advances bear no interest and are payable on demand. The receivable due from Aristo / Mr. Yang to the Company is derived from the consolidation of the financial statements of Aristo, a variable interest entity, with the Company. A repayment plan has been entered with Mr. Yang.

Transactions with Solution Semiconductor (China) Limited

Mr. Yang is a director and the sole beneficial owner of the equity interests of Solution Semiconductor (China) Ltd. (“Solution”).

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we received service fees of $3,846, $3,846, $7,692 and $17,308 respectively from Solution. The service fees were charged for back office support for Solution.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we sold products of $1,712,978, $0, $1,741,492 and $1,000 respectively to Solution. As of September 30, 2013 and December 31, 2012, there were no outstanding accounts receivables from Solution.

Two facilities located in Hong Kong owned by Solution were used by the Company as collateral for loans from DBS Bank (Hong Kong) Limited (“DBS Bank”) (formerly Overseas Trust Bank Limited) and The Bank of East Asia, Limited (“BEA Bank”) respectively.

Transactions with Systematic Information Limited

Mr. Yang, the Company’s Chairman of the Board of Directors, is a director and shareholder of Systematic Information Ltd. (“Systematic Information”) with a total of 100% interest.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we received service fees of $1,231, $1,846, $3,077 and $5,923 respectively from Systematic Information. The service fees were charged for back office support for Systematic Information.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we sold products of $0, $17,457, $680,016 and $17,457 respectively to Systematic Information. As of September 30, 2013 and December 31, 2012, there were no outstanding accounts receivables from Systematic Information.

A workshop located in Hong Kong owned by Systematic Information was used by the Company as collateral for loans from BEA Bank.

Transactions with Atlantic Storage Devices Limited

Mr. Yang is a director and 40% shareholder of Atlantic Storage Devices Ltd. (“Atlantic Storage”). The remaining 60% of Atlantic Storage is owned by a non-related party.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we sold products for $25,526, $1,231, $25,536 and $21,784 respectively to Atlantic Storage. As of September 30, 2013 and December 31, 2012, there were no outstanding accounts receivables from Atlantic Storage.

PART I FINANCIAL INFORMATION

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 7. Related Party Transactions (Continued)

Transactions with City Royal Limited

Mr. Yang, the Company's Chairman of the Board of Directors, is a 50% shareholder of City Royal Limited ("City"). The remaining 50% of City is owned by the spouse of Mr. Yang. A residential property located in Hong Kong owned by City was used by the Company as collateral for loans from DBS Bank.

Transactions with Aristo Components Limited

Mr. Ben Wong, the Company's Chief Executive Officer, is a 90% shareholder of Aristo Components Ltd. ("Aristo Comp"). The remaining 10% of Aristo Comp is owned by a non-related party.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we received service fees of $3,077, $0, $6,154 and $0 respectively from Aristo Comp. The service fees were charged for back office support for Aristo Comp.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we purchased inventories of $0, $0, $0 and $39,107 respectively from Aristo Comp. As of September 30, 2013 and December 31, 2012, there were no outstanding accounts payable to Aristo Comp.

Transactions with Atlantic Ocean (HK) Limited

Mr. Yang is a director and 60% shareholder of Atlantic Ocean (HK) Limited ("Ocean").

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we sold products for $3,287, $0, $10,357 and $0 respectively to Ocean. As of September 30, 2013 and December 31, 2012, there were no outstanding accounts receivables from Ocean.

Transactions with ATMD (Hong Kong) Limited

Effective April 1, 2012, ATMD became a jointly-controlled entity of the Company. The Company holds a 30% interest of ATMD, and Tomen holds 68% interest of ATMD. The remaining 2% interest is owned by IBCom.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we received service fees of $29,022, $25,796, $53,803 and $56,515 respectively from ATMD. The service fees were charged for back office support for ATMD.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we sold products for $0, $0, $0 and $30,525 respectively to ATMD. As of September 30, 2013 and December 31, 2012, there was no outstanding accounts receivable from ATMD.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we purchased inventories of $0, $0, $0 and $116,846 respectively from ATMD.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we paid $0, $62,779, $0 and $202,856 respectively to ATMD as compensation for the services provided by ATMD to the Company regarding the sales of Samsung products during the transition period. As of September 30, 2013 and December 31, 2012, there were no outstanding accounts payable to ATMD.

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USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 7. Related Party Transactions (Continued)

Transactions with Tomen Devices Corporation

On April 1, 2012, the Company established ATMD, a joint venture with Tomen and IBCom. The Company holds a 30% interest of ATMD, and Tomen holds 68% interest of ATMD. The remaining 2% interest is owned by IBCom.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we sold products for $0, $0, $0 and $32,195 respectively to Tomen. As of September 30, 2013 and December 31, 2012, there were no outstanding accounts receivables from Tomen.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we purchased inventories of $0, $36,868,541, $0 and $78,281,961 respectively from Tomen. As of September 30, 2013 and December 31, 2012, there were $0 and $9,209,313 accounts payables to Tomen.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we paid $153,420, $0, $271,931 and $0 respectively to Tomen as for interest on the accounts payable balance.

Transactions with IBCom Electronics (HK) Limited

On April 1, 2012, the Company established ATMD, a joint venture with Tomen and IBCom. The Company holds a 30% interest of ATMD, and Tomen holds 68% interest of ATMD. The remaining 2% interest is owned by IBCom.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we received service fees of $30,769, $30,769, $92,307 and $99,364 respectively from IBCom. The service fees were charged for back office support for IBCom.

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we sold products for $0, $0, $0 and $251,680 respectively to IBCom. As of September 30, 2013 and December 31, 2012, there were $550,131 and $634,862 accounts receivables from IBCom.

Transactions with Global Mega Development Limited

Mr. Yang is a director and the sole beneficial owner of the equity interests of Global Mega Development Ltd. ("Global").

During the three months ended September 30, 2013 and 2012, and the nine months ended September 30, 2013 and 2012, we sold products of $710,350, $0, $1,564,213 and $0 respectively to Global. As of September 30, 2013 and December 31, 2012, there were no outstanding accounts receivables from Global

Note 8. Revolving Lines of Credit and Loan Facilities

The summary of banking facilities at September 30, 2013 is as follows:

	Granted facilities		Utilized facilities	Not Utilized Facilities
Lines of credit and loan facilities				
Import/Export Loan	$ 3,205,129		$ 1,914,685	$ 1,290,444
Bank Loans	5,099,079	(a)	5,099,079	0
Revolving Short Term Loan	1,538,462	(a)	1,536,688	1,774
Overdraft	64,103	(b)	0	64,103
	$ 9,906,773		$ 8,550,452	$ 1,356,321

(a) The bank loans are combined from the summary of Note 9, total bank loans amount to $6,637,541 with a revolving short term loan of $1,536,688. The revolving short term loan is recorded under Other Current Liabilities on the balance sheet. It has a facility limit of $1,538,462, bearing an interest rate of 0.5% below Hong Kong prime rate per annum.
(b) Including cash and cash equivalents

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Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 9. Bank Loans

Bank loans were comprised of the following as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Installment loan provided by BEA Bank having a maturity date in July 28, 2014 and carrying an interest rate of Hong Kong dollar Prime Rate at 5.25% as of September 30, 2013 and December 31, 2012 +0.25%, payable in monthly installments of $13,467 including interest through September 2013 without any balloon payment requirements	$ 128,205	$ 243,590
Installment loan provided by BEA Bank having a maturity date in April 18, 2015 and carrying an interest rate of Hong Kong dollar Prime Rate at 5.25% as of September 30, 2013 and December 31, 2012 +0.25%, payable in monthly installments of $46,652 including interest through September 2013 without any balloon payment requirements	811,966	1,196,581
Installment loan provided by DBS Bank having a maturity date in April 25, 2015 and carrying an interest rate of Hong Kong Prime dollar Rate at 5.25% as of September 30, 2013 and December 31, 2012 +0.5%, payable in monthly installments of $60,233 including interest through September 2013 without any balloon payment requirements	1,017,882	1,574,812
Installment loan provided by DBS Bank having a maturity date in June 2, 2023 and carrying an interest rate of one month HIBOR at 0.28% as of December 31+2%, it was fully repaid on 23 September, 2013	0	456,123
Installment loan provided by DBS Bank having a maturity date in September 15, 2023 and carrying an interest rate of Hong Kong dollar Prime Rate at December 31, 2012 -2.5%, it was fully repaid on 23 September, 2013	0	584,573
Installment loan provided by DBS Bank having a maturity date in June 2, 2026 and carrying an interest rate of one month HIBOR at December 31, 2012 +2%, it was fully repaid on 23 September, 2013	0	703,598
Installment loan provided by DBS Bank having a maturity date in July 21, 2026 and carrying an interest rate of Hong Kong dollar Prime Rate at 5.25% as of December 31, 2012 -2.4%, it was fully repaid on 23 September, 2013	0	1,340,032
Installment loan having a maturity date in 23 September, 2028 and carrying an interest rate of 2% per annum over one month HIBOR (0.2071% at September 30, 2013) from Fubon Bank payable in monthly	961,538	0

installments of $6,280 including interest through September 2013 without any balloon payment requirements				
Installment loan having a maturity date in 23 December, 2013 and carrying an interest rate of 3.5% per annum over one month HIBOR (0.2071% at September 30, 2013) from Fubon Bank without any balloon payment requirements		1,538,462		0
Term loan having a maturity due in 23 January, 2014 and carrying an interest rate of 3.88429 per annum from Fubon Bank without any balloon payment requirements		641,026		0
	$	5,099,079	$	6,099,309

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USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 9. Bank Loans (Continued)

An analysis on the repayment of bank loan as of September 30, 2013 and December 31, 2012 are as follow:

	September 30, 2013	December 31, 2012
Carrying amount that are repayable on demand or within twelve months from September 30, 2013 containing a repayable on demand clause:		
Within twelve months	$ 3,508,898	$ 1,529,282
Carrying amount that are not repayable within twelve months from September 30, 2013 containing a repayable on demand clause but shown in current liabilities:		
After 1 year, but within 2 years	$ 796,339	$ 2,142,751
After 2 years, but within 5 years	118,155	467,232
After 5 years	675,687	1,960,044
	$ 1,590,181	$ 4,570,027
	$ 5,099,079	$ 6,099,309

With respect to all of the debt and credit arrangements referred to in this Note 8 and Note 9, the Company pledged its assets to a bank group in Hong Kong comprised of DBS Bank, BEA Bank and Fubon Bank, as collateral for all current and future borrowings from the bank group by the Company. In addition to the above pledged collateral, the debt is also secured by:

1. Collateral for loans from DBS Bank:
(a) a security interest on a residential property located in Hong Kong owned by City, a related party;
(b) a workshop located in Hong Kong owned by Solution, a related party; and
(c) an unlimited personal guarantee by Mr. Yang

2. Collateral for loans from BEA Bank:
(a) a workshop located in Hong Kong owned by Systematic Information, a related party;
(b) a workshop located in Hong Kong owned by Solution, a related party; and
(c) an unlimited personal guarantee by Mr. Yang

3. Collateral for loans from Fubon Bank
(a) a security interest on two residential properties located in Hong Kong owned by Aristo, a company wholly owned by Mr. Yang; and
(b) an unlimited personal guarantee by Mr. Yang

Note 10. Other Current Liabilities

The other current liabilities consisted the following as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Revolving short term loan	$ 1,528,403	$ 1,531,637
Trade deposit from customers	8,569,820	9,896,635
Deposit received for disposal of a jointly controlled entity	3,633,173	0
Temporary receipts	1,815,496	0
Others	807,016	957,730
	$ 16,353,908	$ 12,386,002

The trade deposit from customers consists of letter of credits received from our customers which were financed by the bank.

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Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 11. Loan From a Third Party

On September 26, 2013, Atlantic Components Limited entered into a Loan Agreement with Excel Precise International Limited, an unrelated third party, for a loan facility to the aggregate extent of HKD55 Million (USD7,051,282). The amount HKD55 Million has been drawn down on September 27, 2013. The rate of interest is 1.1% per month and payable on the 26th day of each calendar month. The Loan is collateral with mortgage over two Properties owned by Atlantic Components Limited and Personal Guaranteed by Wong, Fung Ming and Yang, Chung Lun.

The repayment time schedule contained in the Loan Agreement is as follows:

Date of Repayment	Amount
The Last date of the 12-month period from September 27, 2013	641,026
The Last date of the 24-month period from September 27, 2013	1,282,051
The Last date of the 36-month period from September 27, 2013	5,128,205
	7,051,282
Current portion	641,026
Non-current portion	6,410,256
	7,051,282

The Loan facility is to provide as bridging purpose for the Company during the time negotiation with new banker for revise of banking facility, and in the meantime to maintain the liquidity of the Company.

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USMART MOBILE DEVICE INC. **AND SUBSIDIARIES**

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 12. Fair Value of Financial Instruments

Fair value measurements are determined under a three-level hierarchy for fair value measurements that prioritizes the inputs to valuation techniques used to measure fair value, distinguishing between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (“observable inputs”) and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (“unobservable inputs”).

Fair value is the price that would be received from sale of an asset or would be paid for transfer of a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. In determining fair value, we primarily use prices and other relevant information generated by market transactions involving identical or comparable assets (“market approach”). We also consider the impact of a significant decrease in volume and level of activity for an asset or liability when compared with normal activity to identify transactions that are not orderly.

The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The three hierarchy levels are defined as follows:

Level 1 - Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Credit risk adjustments are applied to reflect the company’s own credit risk when valuing all liabilities measured at fair value. The methodology is consistent with that applied in developing counterparty credit risk adjustments, but incorporates the company’s own credit risk as observed in the credit default swap market.

The following table presents the Company’s assets and liabilities that are measured at fair value on a recurring basis at September 30, 2013:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 743,020	$ 0	$ 0	$ 743,020
Total assets	$ 743,020	$ 0	$ 0	$ 743,020

Note 13. Weighted Average Number of Shares

The Company has a 2006 Incentive Equity Stock Plan, under which the Company may grant options to its employees for up to 5 million shares of common stock. There was no dilutive effect to the weighted average number of shares for the period ended June 30, 2013 and 2012 since there were no outstanding options at September 30, 2013 and 2012.

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Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 14. Investments in a jointly-controlled entity

In March 2012, the Company and Tomen Devices Corporation established ATMD (Hong Kong) Limited, a joint venture operating in Hong Kong. USmart's contribution comprised cash of $3 million and own 30% equity interest of ATMD. Tomen introduced IBCom to ATMD and sold 2% ATMD's equity interest to IBCom, and continued to hold a 68% equity interest of ATMD.

Particulars of the jointly-controlled entity are as follows:

Name	Place of registration	Ownership interest		Percentage of Voting power		Profit sharing		Principal activity
ATMD (Hong Kong) Limited	Hong Kong	30	%	30	%	30	%	Trading

All shareholding in the above entity are in ordinary shares or the equivalent and are stated to the nearest percentage point.

The following table illustrates the summarized financial information of the Company's jointly-controlled entity:

	September 30, 2013		December 31, 2012	
Share of jointly-controlled entity's assets and liabilities:				
Current assets	$	47,376,862	$	23,490,550
Non-current assets		114,288		69,921
Current liabilities		(43,786,154)		(20,742,164)
Non-current liabilities		(3,490)		0
	$	3,701,506	$	2,818,307
Share of jointly-controlled entity's results:				
Net sales	$	171,248,716	$	48,674,460
Gross profit		3,075,486		698,848
Net profit (loss)	$	883,199	$	(181,693)

On September 27, 2013, Atlantic Components Limited entered into a share disposal agreement with Tomen Device Limited on the disposal of 30% share interest of ATMD for the consideration of USD3,633,173, and the amount is received in advance and booked under the item other current liabilities in note 10 . The transaction will be completed in November 2013.

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Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 15. Acquisition

On September 28, 2012, the Company completed its acquisition of 100% equity interest of Jussey Investments Limited ("Jussey"), a company incorporated in British Virgin Islands, for aggregate purchase consideration of approximately US$2,150,000, payable by way of cash or equivalent in favor to the seller within 5 business days after the completion of the acquisition. Jussey owns 100% equity interest in eVision Telecom Limited ("eVision"), a Hong Kong incorporated company, and 80% equity interest in USmart Electronic Products Limited ("UEP"), a Hong Kong incorporated company. Jussey indirectly owns 80% of Dongguan Kezheng Electronics Limited ("Kezheng"), a wholly foreign-owned enterprise ("WFOE") organized under the laws of the PRC by UEP.

Through the acquisition, the Company has diversified its product portfolio, enhanced its distributor role to a Research and Develop ("R&D") manufacturer with its own products and brands, entered the telecommunication industry, gained access to the 3G baseband licenses, and design and manufacturing matrix and facility.

The Company accounted for this acquisition of Jussey and its subsidiaries by acquisition method of accounting. The balance sheet items were stated at fair value. The fair value was accounted upon the issuance of fair value report from an independent valuator engaged for this acquisition.

The purchase price was allocated as follows:

Purchase Consideration:	
Acquisition obligation payable to sellers	$2,150,000
Direct costs relating to acquiree	20,000
Less: cash acquired	(157,259)
Net purchase consideration	$2,012,741
Assets Acquired	
Net tangible assets acquired:	
Fixed assets	$355,481
Inventories	654,757
Trade receivables, deposits, prepayment and other receivables	717,369
Restricted cash	132,706
Trade payables, other creditors and accruals	(13,328,971)
Non-controlled interest	2,140,276
Net tangible assets acquired	$(9,328,382)
Purchase consideration in excess of net tangible assets	$11,341,123
Allocated to:	
Trademark	$53,955
License contracts	11,287,168
	$11,341,123

The purchase price allocation was computed based on fair value report from the independent valuator.

Jussey's results of operations are consolidated with the Company effective October 1, 2012.

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Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 16. Intangible Assets

The intangible assets are summarized in the following table which provides the gross carrying value and accumulated amortization for each major class of intangible assets other than goodwill:

	Remaining useful life	September 30, 2013		December 31, 2012	
Gross carrying amount:					
Trademark	12 months	$	53,955	$	53,955
License contracts	12 months		11,287,168		11,287,168
			11,341,123		11,341,123
Less : Accumulated amortization					
Trademark		$	26,977	$	0
License contracts			5,643,584		0
			5,670,561		0
Intangible assets, net		$	5,670,562	$	11,341,123

The aggregate amortization expense for those intangible assets that continue to be amortized is reflected in amortization of intangible assets in the Condensed Consolidated Statements of Income (Unaudited) and was $5,670,561, $0, $5,670,561 and $0 for the three and nine months ended September 30, 2013 and 2012 respectively.

The written down of the carrying amount of the intangible assets are based on evaluation of the future revenue generated from the concerned intangible assets. Due to the slow down of the projected order and the narrow down of gross margin of the projects, the Company considered to written down $5,670,561 of the carrying value of the intangible assets. The Company will continue to monitor and evaluate the revenue which can be generated from the concerned intangible assets.

Note 17. Subsequent Events

In preparing these financial statements, the management of Company has evaluated the events and transactions that occurred from October 1, 2013 through November 14, 2013, the date these financial statements were issued. The Company has the following subsequent event as disclosed in Note 14, on September 27, 2013, Atlantic Components Limited entered into a share disposal agreement with Tomen Device Limited on the disposal of 30% share interest of ATMD for the consideration of USD3,633,173, and the amount is received in advance and booked under the item other current liabilities in note 10 . The transaction will be completed in November 2013.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described.

The information contained in this Form 10-Q is intended to update the information contained in our annual report on Form 10-K for the year ended December 31, 2012, (the "Form 10-K"), filed with the Securities and Exchange Commission ("SEC"), and presumes that readers have access to, and will have read, the "Management's Discussion and Analysis of Financial Condition and Results of Operation," our consolidated financial statements and the notes thereto, and other information contained in the Form 10-K. The following discussion and analysis also should be read together with our condensed consolidated financial statements and the notes to the condensed consolidated financial statements and the notes thereto included elsewhere in this Form 10-Q.

Forward-Looking Statements

Information included in this Form 10-Q may contain forward-looking statements. Except for the historical information contained in this discussion of the business and the discussion and analysis of financial condition and results of operations, the matters discussed herein are forward looking statements. These forward looking statements include but are not limited to the Company's plans for sales growth and expectations of gross margin, expenses, new product introduction, and the Company's liquidity and capital needs. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. In addition to the risks and uncertainties described in "Risk Factors" contained in the Form 10-K, these risks and uncertainties may include consumer trends, business cycles, scientific developments, changes in governmental policy and regulation, currency fluctuations, economic trends in the U.S. and inflation. Forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that any projections or other expectations included in any forward-looking statements will come to pass. Our actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, we undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Company Overview and Background

The Company has been primarily engaged in the business of distribution of memory products directly purchased from Samsung Electronics Hong Kong Co., Ltd. which principally comprised Dynamic Random Access Memory ("DRAM"), Graphic Random Access Memory ("Graphic RAM"), and Flash memory components for the Hong Kong Special Administrative Region ("Hong Kong") and People's Republic of China ("PRC" or the "China") markets ("Samsung Business" After April 1, 2012, the Samsung Business was transferred to ATMD, a joint venture with Tomen and IBCom. The establishment of ATMD is expected to solidify our position as a leading total memory solution provider and marks a key strategic milestone for the company as it broadens its product range to become a one-stop distributor of electronic components. ATMD offers a broad range of industry-leading Samsung semiconductor products, and additional components from SAMCO (such as wifi and camera modules) and SMD (smartphone panels). Through the acquisition of Jussey on September 28, 2012, we have diversified our product portfolio and customer network, obtained design and manufacturing capabilities, and tapped into the blooming telecommunication industry with access to the 3G baseband licenses acquired by Jussey's subsidiaries.

As of September 30, 2013, USmart had more than 30 customers in Hong Kong and Southern China.

ACL International Holdings Limited

ACL Holdings, a holding company incorporated in Hong Kong, is wholly owned by the Company. ACL Holdings owns 100% equity interest of Atlantic, 30% equity interest of ATMD which was sold on September 27, 2013 but not closed, the joint venture with Tomen and IBCom, and 100% equity interest of Jussey.

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Atlantic Components Limited

Atlantic, a company incorporated in Hong Kong, is indirectly wholly owned by the Company. Atlantic was established in May 1991 by Mr. Chung-Lun Yang, the Company's Chairman, as a regional distributor of memory products of various manufacturers. In 1993, Samsung Electronics Hong Kong Co., Ltd. ("Samsung") appointed Atlantic as its authorized distributor and marketer of Samsung's memory products in Hong Kong and overseas markets. In 2001, Atlantic established a representative office in Shenzhen, China, and began concentrating its distribution and marketing efforts in Southern China.

The Company's Samsung business was formerly conducted through Atlantic. After April 1, 2012, Atlantic integrated its business relating to procurement of semiconductors and electronic parts directly from Samsung to the new joint venture, ATMD. The transition of the business integration has been completed by December 31, 2012. During the transitional period, Atlantic extended its distributor agreement with Samsung to June 30, 2012. After the distributor agreement expired, Atlantic transformed its position from Samsung memory products distributor to a general memory products distributor, and continues its business by providing various brands of memory products to its customers.

Aristo Technologies Limited

On March 23, 2010, the Company concluded that Aristo Technologies Limited ("Aristo"), a related company solely owned by Mr. Yang, is a variable interest entity under FASB ASC 810-10-25 and is therefore subject to consolidation with the Company beginning fiscal year 2007 under the guidance applicable to variable interest entities. Atlantic used to sell Samsung memory chips to Aristo and allows long grace periods for Aristo to repay the open accounts receivable. After the establishment of ATMD, the Company will sell different brands of memory products to Aristo. Being the Company's biggest creditor, the Company does not require Aristo to pledge assets or enter into any agreements to bind Aristo to specific repayment terms. The Company does not experience any bad debt from Aristo. Hence, the Company does not provide any bad debt provision derived from Aristo. Although, the Company is not involved in Aristo's daily operation, it believes that there will not be significant additional risk derived from the trading relationship and transactions with Aristo. Aristo is engaged in the marketing, selling and servicing of computer products and accessories including semiconductors, LCD products, mass storage devices, consumer electronics, computer peripherals and electronic components for different generations of computer related products. In addition to Samsung-branded products, Aristo carries various brands of products, such as Hynix, Micron, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond. Aristo also provides value-added services to its products and resells it to its customers. Aristo's 2012 and 2011 sales were around $2 million and $14 million; it was a distributor that accommodated special requirements for specific customers.

ATMD (Hong Kong) Limited

ATMD, our 30% owned joint venture company incorporated in Hong Kong, integrated both Atlantic and Tomen's Samsung business in Hong Kong and PRC regions. Tomen owns 68% equity interest of ATMD, and IBCom owns 2%. On April 1, 2012, ATMD entered into a distribution agreement with Samsung Electronics Hong Kong Co., Ltd. and began to sell and distribute Samsung's products to the Greater China market, as consented to and approved by Samsung. ATMD is authorized to distribute the same product types originally authorized to Atlantic DRAMs, including Computing DRAMs, Consumer DRAMs and Graphics DRAMs, NAND Flashs, and LCD panels. Apart from the original authorized distribution of products distributed by Atlantic, ATMD is also authorized to distribute Applicable System LSI and Applicable System LCD products including, but not limited to wifi modules, camera modules, and smartphone panels which is used in the rapidly growing segments such as smartphones, netbooks, tablets, personal navigation devices, digital TV, Set Top Box, and wireless handheld PDAs.

The Company indirectly owns 30% equity interest of ATMD. Mr. Chung-Lun Yang, the Company's Chairman was appointed the Chief Executive Officer of ATMD. Atlantic integrated its Samsung Business to ATMD. Subsequent to the start of the operations of ATMD, the relationships between sales, the Company's cost of sales and operating expenses are expected to evolve in accordance with the transition of the Company's business as described above.

ATMD was sold on September 27, 2013 but not yet closed the transaction until November 2013.

Jussey Investments Limited

Jussey, a holding company incorporated in British Virgin Islands, which is wholly owned by the Company, owns 100% equity interest in eVision Telecom Limited ("eVision"), a Hong Kong incorporated company, and 80% equity interest in USmart Electronic Products Limited, a Hong Kong incorporated company, which owns 100% equity interest of Dongguan Kezheng Electronics Limited, a wholly foreign-owned enterprise ("WFOE") organized under the laws of the PRC (USmart Electronic Products Limited and Dongguan Kezheng Electronics Limited are together referring as "UEP" hereafter). Hence, Jussey indirectly owns 80% of Kezheng.

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USmart Electronic Products Limited & Dongguan Kezheng Electronics Limited

UEP was founded in 2006 and it conducts its business through either itself or Kezheng, which has a factory located in Dongguan, PRC. UEP provides Research and Development ("R&D") and both ODM (Original Design Manufacturing) and OEM (Original Equipment Manufacturing) services for the three "C" products Computers, Communications and Consumer electronics devices, such as tablets, portable media players, digital photo frames, and smartphones. UEP has its own R&D and production teams. With the support from eVision, the business of which is described below, UEP is capable of providing its customers with total solutions from design to manufacturing. UEP holds its own brands USmart and VSmart, which can be used on a broad spectrum of products including memory storage devices, visual and audio products such as digital flat screen television, DAB (Digital Audio Broadcasting) radios, digital photo frames, and other home electronic products. In 2010, UEP began its business development in the telecommunication industry, and successfully obtained the W-CDMA (Wideband Code Division Multiple Access is one of the third-generation ("3G") wireless standards) license from Intel Mobile Communications GmbH., which offers cellular platforms for global phone makers. W-CDMA baseband is adopted by China Unicom, one of the three major telecommunication carriers in the PRC.

eVision Telecom Limited

Founded in 2011, eVision is a Hong Kong based solution house that specializes in CDMA2000 (also known as Evolution-Data Optimized or "EV-DO") platform. CDMA2000 is one of the 3G wireless standards. This standard was adopted by China Telecom, one of the three major telecommunication carriers in China. The principal function of eVision is to provide CDMA2000 solutions to UEP. In May 2011, eVision entered into an exclusive R&D servicing agreement (the "Servicing Agreement") with an independent third party in the PRC (the "R&D House"), a solution house that works closely with South China University of Technology and has a R&D team consisting of members with advanced academic qualifications. On behalf of eVision, the R&D House holds a CDMA2000 software license granted by VIA Telecom Co. Ltd. According to the Servicing Agreement, the R&D House provides R&D services relating to CDMA2000 technology exclusively to eVision, and eVision holds the sole and exclusive right, title and interest to and in the aforementioned license and any R&D results/products obtained or developed by the R&D House during the term of the Servicing Agreement. eVision will also hold all the intellectual property rights that are obtained or developed by the R&D House in the course of such research.

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USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Corporate Structure

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USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Financial Highlights

Subsequent to the start of the operations of ATMD, around 90% of the sales were transferred to ATMD. The Company's sales, cost of sales and operating expenses had changed as expected in accordance with the transition of the Company's Samsung Business. For the three months ended September 30, 2013, our major sales came from selling memory products. With the acquisition of Jussey on September 28, 2012, we foresee that our primary business will shift to selling smartphone products.

· Net sales for the three months ended September 30, 2013 ("third quarter of 2013") decreased 60.0% to $19.9 million compared to the same period in 2012 ("third quarter of 2012").
  o 5.1% of net sales were derived from the acquired company, Jussey and its subsidiaries for the third quarter of 2013.
  o 77.8% of net sales for the third quarter of 2013 were derived from Atlantic. With the completion of the transfer of Atlantic's Samsung distributor business to ATMD by December 31, 2012, net sales of the Company faced a significant decrease in the net sales.

· The Company's gross profit for the third quarter of 2013 decreased 66.4% to a gross profit of $0.3 million compared to the third quarter of 2012.
  o Jussey recorded a gross loss of $0.07 million for the third quarter of 2013.

· Net loss for the third quarter of 2013 increased $7.6 million to $6.4 million compared to the net income of 1.2 million for the third quarter of 2012.
  o Operating expenses for the third quarter of 2013 increased 13.8% to $1.3 million compared to the third quarter of 2012.
  o Other expenses for the third quarter of 2013 increased $6.1 million to $4.6 million compared to the other income of $1.5 million for the third quarter of 2012. This increase consisted of 5.7 million amortization of intangible assets and $0.3 million of profit on share result of ATMD.

Although the global economic condition continues to be weak and volatile, the Company believes that the DRAM market is slowly recovering. The mobile devices, such as smartphones and tablets, will drive the DRAM and NAND Flash demands in 2013 and 2014. The Company believes that even we have disposed ATMD which mainly focus on the sales of DRAM and NAND Flash, our business will become more consentrate into the sales and development of popular smartphone and tablets devices. The fourth quarter revenue will have moderate increase and new smartphones and tablets that are still to be the dominant product in next few quarters.

Results of Operations

	Three Months Ended		Nine Months Ended	
	September 30, 2013 (Unaudited)	September 30, 2012 (Unaudited)	September 30, 2013 (Unaudited)	September 30, 2012 (Unaudited)
Net sales	$ 19,859,776	$ 49,488,031	$ 59,327,919	$ 123,266,932
Cost of sales	19,569,973	48,626,491	58,957,261	121,650,790
Gross profit	289,803	861,540	370,658	1,616,142
Operating expenses				

Sales and marketing expenses		34,673		69,580		104,392	237,220
General and administrative expenses		1,283,968		1,089,389		3,357,584	3,228,567
Profit (Loss) from operations		(1,028,838)		(297,429)		(3,091,318)	(1,849,645)
Other income (expenses)		(5,486,364)		1,485,188		(3,183,657)	1,052,031
(Loss) Income before income taxes provision		(6,515,202)		1,187,759		(6,274,975)	(797,614)
Income taxes (reversal) provision		(68,720)		32,950		(68,720)	32,950
Net income (loss)		(6,446,482)		1,154,809		(6,206,255)	(830,564)
Dividend paid		0		0		0	7
	$	(6,446,482)	$	1,154,809	$	(6,206,255)	(830,571)
Earnings (Loss) per share basic and diluted	$	(0.17)	$	0.04	$	(0.16)	(0.03)

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Unaudited Comparisons for Three and Nine Months ended September 30, 2013 to the Three and Nine Months Ended September 30, 2012

Net sales

Net sales consist of product sales, net of returns and allowances and any recoveries from sales of previously written down inventories. Net sales are recognized upon the transfer of legal title of the products to the customers. The quantity of products the Company sells fluctuates with changes in demand from its customers. As the weak and volatile global economic conditions continue, demands for electronic products and components remains weak as of September 30, 2013. Subsequent to the start of the operations of ATMD, around 90% of the sales were transferred to ATMD. These major factors contributed to the significant reduction in the Company's net sales, down 60.0% to $19,859,776 for the three months ended September 30, 2013 from $49,488,031 for the three months ended September 30, 2012. For the nine months ended September 30, 2013 net sales decreased 51.2% to $59,327,919, from $123,266,932 for the nine months ended September 30, 2012.

Cost of sales

Cost of sales is comprised of costs of goods purchased from our supplier, costs of manufacturing, assembly and testing of our products, and associated costs related to manufacturing support and quality assurance personnel, as well as provision for excess and obsolete inventories. The Company's cost of sales, as a percentage of net sales, amounted to approximately 98.5% for the three months ended September 30, 2013 and approximately 98.3% for the three months ended September 30, 2012. Cost of sales decreased by $29,056,518 or 59.8%, to $19,569,973 for the three months ended September 30, 2013 from $48,626,491 for the three months ended September 30, 2012. For the nine months ended September 30, 2013, cost of sales decreased by $62,693,529 or 51.5%, from $58,957,261 for the nine months ended September 30, 2012 to $121,650,790. These decreases were mainly due to decrease in sales volume.

Gross Profit

Gross profit is net sales less cost of sales and is affected by a number of factors, including competitive pricing, product mix, foundry pricing, cost of test and assembly services, manufacturing yields and provision for excess and obsolete inventories. The Company's gross profit for three months ended September 30, 2013 was recorded as a gross profit $289,803, representing a decrease of $571,737 or 66.4% from $861,540 for the three months ended September 30, 2012. For the nine months ended September 30, 2013, gross profit decreased by $1,245,484 or 77.1%, from $1,616,142 for the nine months ended September 30, 2012 to $370,658. These results were the consequence of the reduction in sales volume as well as reduced selling price to encourage the turnover of the Company's price sensitive products in response to the volatile market conditions.

Sales and Marketing Expenses

Sales and marketing expenses consists primarily of associated costs for sales and marketing, commissions, promotional activities, freight shipments, and marine insurance. Sales and marketing expenses decreased by $34,907, or 50.2%, from $69,580 for the three months ended September 30, 2012 to $34,673. For the nine months ended September 30, 2013, sales and marketing expenses decreased by $132,828 or 56.0%, from $237,220 for the nine months ended September 30, 2012 to $104,392. Such decreases were directly attributable to the reduction of sales compensation to ATMD during the transition period in 2012.

General and Administrative Expenses

General and administrative expenses consists primarily of compensation (including stock-based compensation) and associated costs for administrative personnel, professional fees including audit and other business registration fee, and director and officer insurance. General and administrative expenses increased by $194,579 or 17.7%, from $1,089,389 for the three months ended September 30, 2012 to $1,283,968 in third quarter of 2013. For the nine months ended September 30, 2013, general and administrative expenses increased by $129,017 or 4.0%, from $3,228,567 for the nine months ended September 30, 2012 to $3,357,584.

This increment was directly attributable to inclusion of the operation of Jussey which was consolidated to the Company as of September 28, 2012. The increment comprised of increase in legal and professional fee, rental expenses, and staff salaries and allowances, which partially offset by a decrease in bank charges, directors' remuneration, depreciation and entertainment expenses.

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Income (Loss) from Operations

Loss from operations for the three months ended September 30, 2013 increased by $731,409 or 245.9% to $1,028,838, from a loss of $297,429 for the three months ended September 30, 2012. For the nine months ended September 30, 2013, loss from operations increased by $1,241,673 or 67.1% to loss of $3,091,318, from a loss of $1,849,645 for the nine months ended September 30, 2012. These increases in loss from operations were mainly due to the decrease in gross profit.

Other Expenses (Income)

Other expenses (income) consists primarily of rental income, management and service income, interest income, interest expenses, and profit on disposals of assets. The Company recorded other expenses of $5,486,364 for the three months ended September 30, 2013 decreased by $6,971,552, from an income of $1,485,188 for the three months ended September 30, 2012. This decrease in other income was mainly due to increase expenses of amortization of intangible assets and a decrease in reverse for provision of doubtful account in last year 2012.

For the nine months ended September 30, 2013, other income decreased by $4,235,688 to expenses of $3,183,657, from $1,052,031 for the nine months ended September 30, 2012. This decrease in other income was mainly due to increase expenses of amortization of intangible assets and a decrease in reverse for provision of doubtful account offset net income from disposing of fixed assets of $1,872,724 and share the result of ATMD $883,199.

Interest Expense

Interest expense, including finance charges, relates primarily to our bank borrowings and related company Tomen. For the three months ended September 30, 2013, interest expense increased by $29,434 or 11.1% to $295,241 from $265,807 for the three months ended September 30, 2012. For the nine months ended September 30, 2013, interest expense increased by $20,178 or 2.9% to $720,745, from $700,567 for the nine months ended September 30, 2012 These increases were mainly due to increase interest paid to Tomen offset decreased interest on bank term loans and the use of bank lines by the Company to deal with customers and suppliers during the period in 2013.

Income Tax (Reversal) Provision

There are no tax provision made due to no profit being earned by the Company during the period of three months and nine months ended September 30, 2013. The reversal tax provision 68,720 during the period of three months and nine months ended September 30, 2013 was represented tax overprovision of Atlantic for 2012.

Net Income (Loss)

As a result of the foregoing, the Company recorded a net loss of $6,446,482 for the three months ended September 30, 2013, a decrease of $7,601,291 or 658.3%, from a net income $1,154,809 for the three months ended September 30, 2012. This was due to the effect of current down-turn global economic conditions and relatively high operating expenses employed by Jussey even though partially offset by the increase of the shared positive operating result from ATMD. On average, the Company sold its products at a reduced selling price to encourage the turnover of the Company's price sensitive products in response to the deteriorated market conditions, and it caused a decrease in our gross profit and net income.

For the nine months ended September 30, 2013, net loss increased by $5,375,691 or 647.2%, from a loss of $830,571 for the nine months ended September 30, 2013 to $6,206,255. This was due to amortization of intangible assets and relatively high operating expenses generated by Jussey offset by income from disposing of fixed assets and share result of ATMD.

Critical Accounting Policies

The U.S. Securities and Exchange Commission ("SEC") recently issued Financial Reporting Release No. 60, "*Cautionary Advice Regarding Disclosure About Critical Accounting Policies*" ("FRR 60"), suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our most critical accounting policies include: inventory valuation, which affects cost of sales and gross margin; policies for revenue recognition, allowance for doubtful accounts, and stock-based compensation. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results we report in our consolidated financial statements.

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Revenue Recognition

The Company derives revenues from resale of computer memory products. The Company recognizes revenue in accordance with the ASC 605 “Revenue Recognition”. Under ASC 605, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns, which historically were not material.

Impairment of Long-Lived Assets

We account for impairment of property, plant and equipment in accordance with FASB ASC 360. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. During the reporting years, there was no impairment loss incurred. Competitive pricing pressure and changes in interest rates, could materially and adversely affect our estimates of future net cash flows to be generated by our long-lived assets.

Inventory Valuation

Our policy is to value inventories at the lower of cost or market on a part-by-part basis. In addition, we write down unproven, excess and obsolete inventories to net realizable value. This policy requires us to make a number of estimates and assumptions including market and economic conditions, product lifecycles and forecast demand for our product to value our inventory. To the extent actual results differ from these estimates and assumptions, the balances of reported inventory and cost of products sold will change accordingly. Since Aristo supplies different generations of computer related products, older generation products will sell more slowly owing to lower market demand. According to the management experience and estimation of the actual market situation, old generation products carrying on hand for ten years will have no re-sell value. Therefore, these inventories on hand over ten years will be written off by Aristo immediately.

Allowance for Doubtful Accounts.

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our allowance for doubtful accounts is based on our assessment of the collectability of specific customer accounts, the aging of accounts receivable, our history of bad debts, and the general condition of the industry. If a major customer’s credit worthiness deteriorates, or our customers’ actual defaults exceed our historical experience, our estimates could change and impact our reported results.

Liquidity and Capital Resources

Our principal sources of liquidity are cash from operations, bank lines of credit and credit terms from suppliers. Our principal uses of cash have been for operations and working capital. We anticipate these uses will continue to be our principal uses of cash in the future.

As of September 30, 2013, we had revolving lines of credit and loan facilities in the aggregate amount of $9,906,773, of which $1,356,321 was available for drawdown as short-term loans repayable within 90 days. Detailed disclosures on credit facilities are made in Note 8 and Note 9 of Notes to the Condensed Consolidated Financial Statements (Unaudited) for the quarter ended September 30, 2013, including the amounts of facilities, outstanding balances, interest rates, maturity periods (for long term loans) and pledges of assets.

Our ability to draw down under our various credit and loan facilities is, in each case, subject to the prior consent of the relevant lending institution to make advances at the time of the requested advance and each facility (other than with respect to certain long term mortgage loans) is payable within 90 days of drawdown. Accordingly, on a case by case basis, we may elect to terminate or not renew several of our credit facilities if significant reduction in our available short term borrowings that we do not deem it is commercially reasonable.

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As of September 30, 2013, the Company had total current assets of $3,919,998 and current liabilities of $31,255,153. This raises substantial doubt about the Company's ability to continue as a going concern. We will continue to seek additional sources of available financing on acceptable terms; however, there can be no assurance that we will be able to obtain the necessary additional capital on a timely basis or on acceptable terms, if at all. In addition, if the results are negatively impacted and delayed as a result of political and economic factors beyond management's control, our capital requirements may increase.

The short-term borrowings from banks to finance the cash flow required to finance the purchase of products from our suppliers must be made a day in advance of the release of goods from suppliers' warehouse before receiving payments from customers upon physical delivery of such goods in Hong Kong which, in most instances, take approximately two days from the date of such delivery.

The following factors, among others, could have negative impacts on our results of operations and financial position: the termination or change in terms of the banking facilities; pricing pressures in the industry; a continued downturn in the economy in general or in the memory products sector; an unexpected decrease in demand for certain memory products; our ability to attract new customers; an increase in competition in the related markets; and the ability of some of our customers to obtain financing.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform them to actual results or to make changes in our expectations. The establishment of ATMD will not affect our liquidity and capital resources, as pursuant to the joint venture agreement, Tomen will be responsible for the financing of ATMD's operations.

Net Cash Provided by (Used for) Operating Activities

For the nine months ended September 30, 2013, net cash used for operating activities was $4,526,628 while for the nine months ended September 30, 2012 net cash provided by operating activities was $2,181,469, a decrease in cash provided of $6,708,097. This decrease was primarily due to cash used for the increase of accounts receivable from related parties and decrease of accounts payable to related parties offset by the decrease of inventories as of September 30, 2013.

Net Cash Provided by (Used for) Investing Activities

For the nine months ended September 30, 2013, net cash provided by investing activities was $5,058,325 while for the nine months ended September 30, 2012, net cash used for investing activities was $1,535,199, an increase in cash provided of $6,593,524. This increase was primarily due to the cash provided by the sale of fixed assets and advanced from Aristo/Mr. Yang as of September 30, 2013.

Net Cash Provided by (Used for) Financing Activities

For the nine months ended September 30, 2013, net cash used for financing activities was $428,139, while for the nine months ended September 30, 2012 was $1,021,105, decrease in cash used of $592,966. This decrease was due to the increase of cash outflow in repayment on lines of credit and notes payable loans and principal payments to bank offset by the increase of bank and others borrowing as of September 30, 2013. The Company has entered into a Loan facility agreement with Excel Precise International Limited for an amount of HKD55 Million (approximately USD7

Million) to finance the Company in the coming year. Therefore, the Company is financially sufficient on working capital for our business. Concurrently, the Company will continue to negotiate with new banker for further more cost effective financing.

New Accounting Pronouncements

In January 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This ASU clarifies that ordinary trade receivables and receivables are not in the scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification (Codification) or subject to a master netting arrangement or similar agreement. The FASB undertook this clarification project in response to concerns expressed by U.S. stakeholders about the standard's broad definition of financial instruments. After the standard was finalized, companies realized that many contracts have standard commercial provisions that would equate to a master netting arrangement, significantly increasing the cost of compliance at minimal value to financial statement users. An entity is required to apply the amendments in ASU 2013-01 for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of ASU 2011-11.

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In February 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This ASU improves the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP.

The new amendments will require an organization to:

· Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

· Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). A private company is required to meet the reporting requirements of the amended paragraphs about the roll forward of accumulated other comprehensive income for both interim and annual reporting periods. However, private companies are only required to provide the information about the effect of reclassifications on line items of net income for annual reporting periods, not for interim reporting periods. The amendments are effective for reporting periods beginning after December 15, 2012, for public companies and are effective for reporting periods beginning after December 15, 2013, for private companies. Early adoption is permitted.

In February 2013, FASB issued Accounting Standards Update (ASU) No. 2013-03, *Financial Instruments (Topic 825)*. This ASU clarifies the scope and applicability of a disclosure exemption that resulted from the issuance of Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendment clarifies that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed. This ASU is the final version of Proposed Accounting Standards Update 2013-200 Financial Instruments (Topic 825) which has been deleted. The amendments are effective upon issuance.

In February 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. This ASU provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. The amendments in this ASU should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this ASU) and should disclose that fact. Early adoption is permitted.

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In March 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-05, *Foreign Currency Matters (Topic 830)*. This ASU resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights)within a foreign entity. In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. This ASU is the final version of Proposed Accounting Standards Update EITF11Ar Foreign Currency Matters (Topic 830), which has been deleted. The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. For nonpublic entities the amendments in this Update are effective prospectively for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption.

In April 2013, FASB Accounting Standards Update 2013-07, *Presentation of Financial Statements (Topic 205)*: Liquidation Basis of Accounting. This ASU clarifies when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. Liquidation is the process by which a company converts its assets to cash or other assets and settles its obligations with creditors in anticipation of ceasing all of its activities. An organization in liquidation must prepare its financial statements using a basis of accounting that communicates information to users of those financial statements to enable those users to develop expectations about how much the organization will have available for distribution to investors after disposing of its assets and settling its obligations. The ASU requires organization to prepare its financial statements using the liquidation basis of accounting when liquidation is "imminent." Liquidation is considered imminent when the likelihood is remote that the organization will return from liquidation and either: (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties; or (b) a plan for liquidation is being imposed by other forces (e.g., involuntary bankruptcy). In cases where a plan for liquidation was specified in the organization's governing documents at inception (e.g., limited-life entities), the organization should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified in the organization's governing documents. The ASU requires financial statements prepared using the liquidation basis to present relevant information about a company's resources and obligations in liquidation, including the following:

· The organization's assets measured at the amount of the expected cash proceeds from liquidation, including any items it had not previously recognized under U.S. GAAP that it expects to either sell in liquidation or use in settling liabilities (e.g., trademarks).

· The organization's liabilities as recognized and measured in accordance with existing guidance that applies to those liabilities.

· Accrual of the costs it expects to incur and the income it expects to earn during liquidation, including any anticipated disposal costs.

This ASU is effective for interim and annual reporting periods beginning after December 15, 2013, with early adoption permitted.

In July 2013, The FASB has published Accounting Standards Update 2013-09, *Fair Value Measurement (Topic 820)*: Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04. This ASU defers indefinitely certain disclosures about investments held by nonpublic employee benefit plans in their plan sponsors' own nonpublic equity securities. The ASU was approved by the FASB on June 12, 2013. ASU No. 2013-09, *Fair Value Measurement (Topic 820)*: Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04, applies to disclosures of certain quantitative information about the significant unobservable inputs used in Level 3 fair value measurement for investments held by certain employee benefit plans.

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In July 2013, The FASB has issued ASU No. 2013-11, *Income Taxes (Topic 740)*: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force). U.S. GAAP does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item

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Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Disclosure Controls. In designing and evaluating the Company's disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, Company management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) as of September 30, 2013, and based on this evaluation, the Company's principal executive and financial officers have concluded that the Company's disclosure controls and procedures were not effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Exchange Act and the rules and regulations promulgated thereunder. The Company's principal executive and financial officer's conclusion regarding the Company's disclosure controls and procedures is based on management's conclusion that the Company's internal control over financial reporting are ineffective, as described in our Annual Report on Form 10K as filed with the SEC on April 16, 2013, which included a complete discussion relating to the foregoing evaluation of Disclosures on Controls and Procedures.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION
USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

PART II OTHER INFORMATION
USMART MOBILE DEVICE INC. AND SUBSIDIARIES

Item 6. Exhibits

Exhibits:

* 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
* 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
* 32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
* 32.2	Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
** 101.INS	XBRL Instance Document.
** 101.SCH	XBRL Taxonomy Extension Schema Document.
** 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
** 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
** 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
** 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

** Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	USMART MOBILE DEVICE INC.	
Date: November 19, 2013	By:	/s/ Ben Wong Ben Wong Chief Executive Officer
Date: November 19, 2013	By:	/s/ Philip Tsz Fung Lo Philip Tsz Fung Lo Chief Financial Officer

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